



October 21, 2021

The Secretary, Listing Department
BSE Limited
Phiroze Jeejeebhoy Towers,
Dalal Street,
Mumbai - 400 001.
Maharashtra, India.
Scrip Code: 500470/890144*

The Manager, Listing Department
National Stock Exchange of India Limited
Exchange Plaza, 5th Floor, Plot No. C/1,
G Block, Bandra-Kurla Complex, Bandra (E),
Mumbai - 400 051.
Maharashtra, India.
Symbol: TATASTEEL/TATASTLPP*

Dear Sirs/Madam,

Sub: Intimation of Revision in Ratings under the SEBI (Listing Obligations and Disclosure Requirements), Regulations, 2015

This has reference to Regulation 30(6) of the SEBI (Listing Obligations and Disclosure Requirements), Regulations, 2015 (the 'Regulations'). In accordance with the said Regulation(s), please find below the details of revision in ratings for Company and its subsidiary: -

Name of the Company	Credit Rating Agency	Type of Credit Rating	Existing	Revised
Tata Steel Limited	S&P Global Ratings	Long- term issuer credit rating	'BB' Outlook: Stable	'BBB-' Outlook: Stable
ABJA Investment Co. Pte. Ltd.		Long-term foreign currency issuer credit rating	'BB' Outlook: Stable	'BBB-' Outlook: Stable

The report from the credit rating agency covering the rationale for revision in credit rating is enclosed.

This is for your information and records.

Yours faithfully,
Tata Steel Limited

Parvatheesam Kanchinadham
Company Secretary &
Chief Legal Officer (Corporate and Compliance)

Encl: As Above

**Securities in scrip code 890144 and symbol TATASTLPP stand suspended from trading effective February 17, 2021*

TATA STEEL LIMITED

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Tel 91 22 6665 8282 Fax 91 22 6665 7724 Website www.tatasteel.com
Corporate Identity Number L27100MH1907PLC000260

Research Update:

Tata Steel Rating Raised To 'BBB-' On Reassessment Of Group Support; Outlook Stable

October 20, 2021

Rating Action Overview

- We believe the credit profile of Tata Steel Ltd. is strengthened by its importance to Tata Sons Pte. Ltd., with potential for financial support, if required. We expect Tata Sons to have a positive influence on the long-term strategy and financial policies of its group entities.
- The incorporation of group support into our ratings on Tata Steel follows our reassessment of potential extraordinary and ongoing support from Tata Sons, following a revision to our approach to treating Tata Sons as a conglomerate rather than as an investment holding company. We have observed Tata Sons and its subsidiaries and associates become a more cohesive group in recent years.
- On Oct. 21, 2021, S&P Global Ratings raised its issuer credit rating on Tata Steel and its subsidiary ABJA Investment Co. Pte. Ltd. to 'BBB-' from 'BB'. We also raised the long-term issue rating on the senior unsecured notes issued by ABJA to 'BBB-' from 'BB'. At the same time, we removed the ratings from CreditWatch with positive implications, where they were placed on Aug. 20, 2021.
- The stable outlook reflects our expectation that Tata Steel will continue deleveraging to improve its resilience to downturns over the next 12-18 months. The outlook also reflects continued favorable financial policies, especially toward leveraging.

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Rating Action Rationale

Tata Sons will likely provide extraordinary financial support to Tata Steel, if required, in times of financial stress. In our view, Tata Sons and its subsidiaries and associates have become a more cohesive group in recent years. This is reflected in increased ownership across entities, perceived influence over financial policy (e.g., deleveraging across the group) and further signs of provision of financial support. For more details, see "Tata Group Companies Placed On CreditWatch Positive", published Aug. 20, 2021.

Previously, we considered Tata Sons as an unlisted investment holding company for the group and did not factor in any direct support in assessing the credit profiles of the individual group

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companies. We have now explicitly reflected the potential for ongoing and extraordinary support from Tata Sons into our ratings on various Tata Group entities following the change in our assessment of Tata Sons as a conglomerate. We regard the credit quality of Tata Sons to be strongly investment grade.

Tata Sons has demonstrated financial support to group entities in times of stress. We believe Tata Steel will similarly benefit from extraordinary support, if needed. Tata Steel's importance to Tata Sons is underpinned by:

- Tata Sons' ownership in Tata Steel: Tata Sons is the largest shareholder in Tata Steel, owning about 34%. We believe Tata Sons will be open to increasing its ownership to the 40%-50% range seen in other key group entities. Tata Sons has supported previous equity offerings of Tata Steel in full. It is closely involved in overseeing Tata Steel with two board nominees. The chairman of Tata Sons is also the chairman of Tata Steel. Tata Steel is closely linked to Tata Sons' reputation and risk management. Reputational damage in the event of a default is a key incentive for support to Tata Steel.
- Tata Sons' influence on Tata Steel's financial policy: While Tata Steel operates independently with professional directors and management, we have observed a greater influence of Tata Sons on the strategy and financial policies of the group companies. Tata Steel has prioritized debt reduction, in line with Tata Sons' policy, and has committed to a minimum debt reduction of US\$1 billion per year.
- Meaningful size and contribution to the group: Tata Steel benefits from its legacy status within the Tata Group as the oldest group entity. It has historically accounted for about 30% of group EBITDA.

Tata Group ownership supports the credit profiles of group companies. We believe Tata Steel benefits from preferential funding access as part of the Tata Group, with enhanced banking relationships and the ability to tap capital markets. For example, its financing subsidiary ABJA, tapped the capital market without an explicit guarantee from its parent, an uncommon bond structure in the Asian credit markets. We view the success of the deal as largely reflecting the strength of the Tata brand in accessing funds.

Extent of rating uplift constrained by ownership structure and contribution to the group credit profile. The lack of majority ownership and Tata Steel's relatively small share in the cash flow and portfolio value at the Tata Sons level prevent a stronger group assessment, and hence, rating uplift. Tata Sons has demonstrated financial support to group companies mainly during periods of financial stress, as opposed to regular co-investments or capitalization to maintain credit strength seen in conglomerates with a stronger group linkage.

While we expect strong extraordinary group support to be available mainly in stressed times, absence of ongoing support to prevent a deterioration in the credit profile implies that the rating on group entities cannot be too detached from their respective stand-alone credit profiles. A greater demonstration of ongoing support and operational linkages within the group could lead to a stronger assessment in the future.

The rating on Tata Steel is supported by strong deleveraging intent and continued robustness in steel prices. Our adjusted debt estimate for Tata Steel (including customer advances and securitized receivables) will fall to about Indian rupees (INR) 600 billion (about US\$8 billion) by fiscal 2023 (ending March 31, 2023) in our base-case scenario, from about INR915 billion as of end-March 2021. This would significantly outperform the company's stated intention to reduce debt by at least US\$1 billion per year.

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While the company has resumed some growth capital expenditure (capex), the increase is still small in relation to operating cash flow and does not affect the path of deleveraging. In our base case, we forecast the company's EBITDA and free operating cash flow (FOCF) to be about INR1 trillion and INR350 billion-INR400 billion, respectively, over fiscals 2022 and 2023. This is despite our assumption of a 10% decline in steel prices in fiscal 2023.

A recent spike in coking coal prices is a risk to near-term profitability for Tata Steel. The company's captive access to half its coking coal requirements for its Indian operations mitigates the risk to some extent. All else being equal, we believe the spike in coking coal prices could reduce annual EBITDA by US\$2.5 billion-US\$3.0 billion per year (INR180 billion-INR225 billion). However, high input prices will likely support steel prices against our base-case expectation of a gradual normalization in steel prices through fiscal 2023.

Outlook

The stable outlook reflects our expectation that Tata Steel will continue deleveraging to improve its resilience to downturns. At current steel prices and our forecast debt levels, the company's ratio of funds from operations (FFO) to debt will likely exceed 45% over the next 12-18 months. The outlook is based on our expectation that the company's FFO-to-debt ratio would remain well above 25% even if steel prices were to decline to mid-cycle levels.

Downside scenario

We could downgrade Tata Steel if its earnings dropped unexpectedly, or if debt increased such that its FFO-to-debt ratio falls below 25% sustainably. This could be the result of a sharp drop in steel prices or any debt-funded growth plans beyond our base case. Though less likely, any weakening in our assessment of the expected level of support from Tata Sons or in the credit quality of Tata Sons could also lead to a downgrade.

Upside scenario

We could raise the rating if Tata Steel deleverages such that we view the company's ratio of FFO to debt as likely to remain above 35% sustainably. We believe an upgrade of Tata Steel will not be contingent on an upgrade of the sovereign rating on India (BBB-/Stable/A-3). Given the company's revenue base is dollar-linked, we believe it will have adequate liquidity in the event of sovereign stress.

Factors contributing to an upgrade include steel prices remaining stronger for longer than we expect. At current steel prices and our expected debt levels, the company's FFO-to-debt ratio will likely be well above 35% over the next 12-18 months. However, Tata Steel's ability to maintain the ratio at this level at mid-cycle prices is less likely. A track record of a more prudent financial policy that results in lower levels of leverage through the cycle would also support a higher rating.

Company Description

Tata Steel is among the largest steel producers globally, with an annual crude steel capacity of about 18 million tons in India and 10.5 million tons in Europe. Its India operations are well integrated with captive access to iron ore, although it still supplements its coal needs with imports. The company's business position is a mix of low-cost, highly efficient steelmaking

facilities in India and comparatively high-cost facilities in Europe. Tata Steel is part of Tata Group and is about 34%-owned by the Tata Group.

Our Base-Case Scenario

Assumptions

- Steel sales of about 18 million tons in India and 9 million tons in Europe in fiscals 2022 and 2023, similar to fiscal 2021 levels.
- Average net sales realization in Indian rupee terms that is about 40% higher in fiscal 2022 over fiscal 2021, and then declines about 10% in fiscal 2023.
- Capex of INR110 billion per year in fiscals 2022 and 2023 as some growth capex returns.
- Shareholder distributions totaling about INR60 billion over fiscals 2022 and 2023.

Key metrics

- Average EBITDA/ton for the Indian operations of about INR30,000 and INR22,000-INR25,000 in fiscals 2022 and 2023, respectively.
- Consolidated EBITDA margin of 25%-30% in fiscal 2022, declining to 20%-25% in fiscal 2023, compared to 18% in fiscal 2021.
- FFO-to-debt ratio of 45%-50% over fiscals 2022 and 2023.
- Positive FOCF of INR300 billion-INR400 billion over fiscals 2022 and 2023, reducing our adjusted debt estimate for the company to INR600 billion-INR650 billion by end-March 2023.

Liquidity

We assess Tata Steel's liquidity as adequate. On a consolidated basis, we estimate the company's liquidity sources will be well above 1.5x its liquidity uses over the 12 months ending June 30, 2022. Tata Steel has good on-balance-sheet liquidity and no large near-term debt maturities. We expect the company to have enough funds to manage its uses even if its EBITDA were to fall by 15%.

Tata Steel enjoys strong financial flexibility as a blue-chip Indian company. It has good access to capital markets and strong banking relationships, given its association with Tata Group. We believe support from Tata Group will be forthcoming, if needed, reinforcing its liquidity position.

Key liquidity sources include:

- Cash and cash equivalents of INR130 billion as of March 31, 2021.
- FFO that we estimate at about INR380 billion over the 12 months ending June 30, 2022.

Key liquidity uses include:

- Debt maturities of about INR150 billion over the 12 months ending June 30, 2022, including short-term working capital debt that is typically rolled over
- Capex of INR100 billion over the period.

Covenants

Tata Steel remains in compliance with its covenants as of March 31, 2021.

Issue Ratings - Subordination Risk Analysis

Capital structure

As of March 31, 2021, Tata Steel had about INR800 billion of debt, of which about INR320 billion was secured. Of the total debt, about INR273 billion was at the Tata Steel stand-alone level, about INR200 billion equivalent was at Tata Steel Netherlands Holdings BV, and about INR190 billion equivalent of bonds were at its captive financing unit ABJA.

Analytical conclusions

We rate the foreign currency bonds totaling about US\$2.3 billion issued by ABJA at 'BBB-', the same as the issuer credit rating on ABJA. We treat ABJA as a core subsidiary of Tata Steel and equalize the rating on ABJA with that on Tata Steel. We rate the issuances the same as the issuer credit ratings because Tata Steel primarily operates in India, a jurisdiction where we believe the priority of claims in a theoretical bankruptcy is highly uncertain.

Ratings Score Snapshot

Issuer Credit Rating: BBB-/Stable/--

Business risk: Satisfactory

- Country risk: Moderately high
- Industry risk: Moderately high
- Competitive position: Satisfactory

Financial risk:

- Cash flow/Leverage: Significant

Anchor: bb+

Modifiers

- Diversification/Portfolio effect: Neutral (no impact)
- Capital structure: Neutral (no impact)
- Liquidity: Adequate (no impact)
- Financial policy: Neutral (no impact)
- Management and governance: Satisfactory (no impact)
- Comparable rating analysis: Neutral (no impact)

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Stand-alone credit profile: bb+

Entity status within group: Moderately strategic (+1 notch from SACP)

Related Criteria

- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Group Rating Methodology, July 1, 2019
- General Criteria: Hybrid Capital: Methodology And Assumptions, July 1, 2019
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, April 1, 2019
- Criteria | Corporates | General: Reflecting Subordination Risk In Corporate Issue Ratings, March 28, 2018
- General Criteria: Guarantee Criteria, Oct. 21, 2016
- Criteria | Corporates | Recovery: Methodology: Jurisdiction Ranking Assessments, Jan. 20, 2016
- Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- Criteria | Corporates | General: Corporate Methodology, Nov. 19, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities, Nov. 13, 2012
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011
- General Criteria: Stand-Alone Credit Profiles: One Component Of A Rating, Oct. 1, 2010

Ratings List

Upgraded; CreditWatch/Outlook Action

	To	From
Tata Steel Ltd.		
Issuer Credit Rating	BBB-/Stable/--	BB/Watch Pos/--
ABJA Investment Co. Pte. Ltd.		
Issuer Credit Rating	BBB-/Stable/--	BB/Watch Pos/--
ABJA Investment Co. Pte. Ltd.		
Senior Unsecured	BBB-	BB/Watch Pos

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search

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